

RTO West

Transmission Planning Work Group's and Joint Expansion Work Group's Final Recommendations¹ to the Regional Representatives Group August 23, 2000

Recommendations

1. Facilities Definitions²

- *RTO Facilities* means facilities that are “turned over” by a PTO to the RTO pursuant to a Transmission Control Agreement.
- *RTO Grid* means those RTO Facilities that are required to support the RTO's transfer capabilities and the Order 2000 RTO functions, including transmission facilities that are necessary to serve wholesale load and generation. (It is the Planning Work Group's understanding that a PTO is required to transfer RTO Grid facilities to RTO West.)
- *RTO Local Facilities* means those RTO Facilities that are not required to support the RTO's transfer capabilities and the Order 2000 RTO functions and that are not necessary to serve wholesale load and generation. (It is the Planning Work Group's understanding that a PTO has discretion in determining which RTO Local Facilities to turn over to RTO West.)

¹ The Expansion Joint Work Group (which included representation from the Pricing, Congestion Management, and Planning Work Groups) was responsible for Recommendation 1, *Expansion Decisions (Who Decides/Who Pays)* and Recommendation 3, *RTO Determination of Benefits and Allocation of Costs*.

These recommendations represent general concepts and assume that the details of the planning process will be developed post-filing. There is one major policy issue that has not been resolved – while it has been agreed that RTO West has ultimate responsibility for planning and expansion of the RTO Grid, the Planning Work Group has not agreed on how much of the actual work will be done by the RTO's staff versus the PTOs' staff (with oversight and coordination by the RTO). A number of footnoted comments to the recommendations relate to this issue, which will be addressed by the RRG at its August 23-25 meeting (see separate briefing paper).

² Some of these definitions have been modified from those contained in the Planning Work Group's July 31, 2000 Bulleted Recommendations to the Regional Representatives Group.

2. RTO West's Planning Responsibilities

- Planning Process for the RTO Grid

RTO West will be responsible for planning for the RTO Grid using a non-discriminatory process, with significant input from all users of the system.

The PTOs have the primary decision-making authority regarding what facilities will be constructed to ensure the transmission adequacy of the RTO Grid ("keeping the lights on").³ In the event that the PTOs fail to maintain such transmission adequacy, the RTO has backstop authority to require PTOs to construct necessary facilities.

Decisions for expansion of the RTO Grid for economic reasons are left to those bearing the cost of the decision (such as the users who are impacted by congestion clearing charges).

RTO West's planning responsibility will include the following:

- ❖ Determining the capability of the RTO Grid
- ❖ Identifying paths that are experiencing congestion and the current/historical specifics (price, duration, etc.)
- ❖ Assessing the transmission adequacy of the RTO Grid
- ❖ Providing the information developed above to the market
- ❖ Coordinating expansion activities
 - Load Service – While PTOs have the primary responsibility for determining what facilities should be built for load service purposes, the RTO will coordinate and oversee the PTOs' planning activities and, should a PTO fail ensure transmission adequacy, the RTO has backstop authority to compel a PTO to construct needed facilities. Further, upon the request from a PTO, the RTO will identify and evaluate alternatives (using a public process that takes into account non-transmission solutions and the impact of RTO Grid activities on other facilities)⁴

³ Transmission adequacy means the ability to deliver requested power, without regard to the cost of the power being delivered.

⁴ Upon further consideration, BC Hydro would like the RTO planning staff to be more proactive with respect to developing proposed solutions to identified needs, rather than wait for a specific request before identifying and evaluating alternatives.

A transmission project sponsor of a congestion relief project (any party except the RTO) may plan its project outside of the RTO planning process, although the sponsor could choose to pay the RTO to act as its consultant with respect to the development of the project, including the identification and evaluation of reasonable alternatives). Once a sponsor has brought a proposed project to the RTO, the RTO will coordinate its interconnection with the RTO Grid, including determining whether there are any negative

- Congestion Clearing – Identifying and evaluating alternatives upon the receipt of a request from the market
 - ❖ The RTO West planning staff will analyze new RTO Grid facilities for impacts on the transfer capability of the RTO Grid and ensure that the project sponsor has appropriately mitigated negative impacts. Conversely, if the new RTO Grid facilities have created transfer capability on the RTO Grid, the PTO will be given any corresponding FTRs.
 - ❖ Coordinating compliance studies and system base cases.
- RTO Local Facilities
 - ❖ PTOs will have primary responsibility for planning RTO Local Facilities.
 - ❖ The RTO West planning staff will analyze new RTO Local Facilities for impacts on the transfer capability of the RTO Grid and ensure that the project sponsor has appropriately mitigated negative impacts. Conversely, if the new RTO Local Facilities have created transfer capability on the RTO Grid, the PTO will be given any corresponding FTRs.

impacts on the RTO Grid's transfer capability and, if so, deciding on the appropriate mitigation. The RTO will also inform the public that the project has been proposed, so they can consider the possibility of expanding its parameters. Where the project adds transfer capability, the project sponsor(s) will be given any FTRs associated with such increased transfer capability.

3. Expansion Decisions (Who Decides/Who Pays)

Purpose ⁵	Decision-Maker/Who Pays
<p>Category A:</p> <p>Maintaining Sufficient Transfer Capability to Satisfy the Converted⁶ Pre-Existing Contracts and Load Service Obligations as Defined by the Congestion Management Group⁷</p>	<p>The PTO is obligated to maintain the transfer capability or to address a degradation of needed transfer capability to the satisfaction of the right-holders through another approach, including non-transmission solutions (<u>e.g.</u>, buy-back long-term firm rights).⁸</p> <p><i>Exception.</i> When the degradation results from the following causes, the affected parties should look to existing contracts to determine the appropriate action and, if there is not a contract, the RTO should facilitate a discussion to determine how the degradation should be addressed:⁹</p>

⁵If replacements/reinforcements/new facilities are constructed that confer benefits beyond those intended by the project's sponsor (whether that sponsor is a PTO or another market participant), at the request of the sponsor, the RTO can evaluate who benefits and allocate costs proportionally. (See discussion at Recommendation 4, *RTO Determination of Benefits and Allocation of Costs*, infra.) Those who pay the costs will receive any corresponding FTRs.

⁶Unconverted rights/obligations will also need to be addressed, but the Congestion Management Group first needs to decide who will administer those rights, the RTO or the PTOs.

⁷The Congestion Management and Pricing Work Groups are currently considering whether rights to FTRs that are associated with pre-existing contracts will terminate when the contracts expire. If rights falling into Category A have expired, whether a PTO is obligated to maintain initial transfer capability relevant to the released capability shifts to Category B.

⁸If there are multiple PTOs with interests in a path, the allocation of responsibility between the PTOs is based upon the PTOs' underlying contract regarding the path.

Although it will depend upon how the Congestion Management Group translates pre-existing contracts and load serving obligations to FTRs, it is possible that the aggregate of FTRs on a path could exceed its rating/capability (as a result of a PTO overcommitment of long-term rights on a path). If this happens, the obligation of a PTO to maintain sufficient transfer capability to satisfy such rights will need to be reexamined, although some parties believe that since it was the PTO that overcommitted the path in the first place that it should be required to provide transfer capability sufficient to meet its overcommitted pre-existing rights and obligations. However, consideration should be given to how the contractual rights are being met currently.

⁹It is recognized that the business relationship between the RTO and the PTOs has not yet been established, and that it might make sense to wait until after RTO formation to have the RTO and the PTOs define the appropriate exceptions. In the meantime, examples of exceptions are listed above.

The RRG's decision regarding the treatment of existing RAS could have an impact on this category, and if appropriate, the RRG might want to consider adding it as an exception.

Purpose	Decision-Maker/Who Pays
	<ul style="list-style-type: none"> * Something outside of the control of the PTO (NERC changing criteria, changing load or generation) * A line/path derating * Operations of other RTOs <p><i>Backstop.</i> If a PTO fails to resolve an issue, the RTO has the authority to require the PTO to remedy the problem. (ADR will be available for parties that disagree with the RTO's decisions.) The PTO's costs for maintaining transfer capability will be recovered through its Company Rate.¹⁰ If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs.</p>
<p>Category B:</p> <p>Maintaining the Initial Transfer Capability of the RTO Grid to the Extent such Transfer Capability is Not Needed for Category A Rights and Obligations</p>	<p><i>Recommendation of the Majority of the Joint Work Group:</i> Through its planning process, the RTO will assess the transmission adequacy of the RTO Grid. Based upon this knowledge, the RTO will determine whether the transfer capability of existing facilities should be maintained to serve the RTO's ongoing commitments (other than FTRs relating to pre-existing contracts and load serving obligations) and require a PTO to undertake any necessary replacements, reinforcements, or non-transmission solutions. The costs of such replacements, reinforcements, and non-transmission solutions will be recovered through a PTO's Company Rates. If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs.</p> <p><i>After further consideration, some members of the Planning Work Group would like the RRG to keep in mind the following alternative when they consider the above recommendation:</i> With respect to the capability that is freed up upon the expiration of rights of parties to the FTRs in Category A, the decision-making authority with regard to maintaining the transfer capability should revert to whoever ultimately gets the FTRs. (For example, if the PTOs get the FTRs, they should decide whether it is appropriate to maintain the transfer capability required to satisfy such rights, if the RTO gets the FTRs, it should decide. The Congestion Management Work Group is addressing who gets the FTRs.)</p>

¹⁰ How a PTO will recover its Company Rates from its load (for example, whether expansion costs will be directly assigned or socialized) will be determined in the PTO's rate process. (For BC Hydro, this process is set out in the BC Hydro Tariff.)

Purpose	Decision-Maker/Who Pays
<p>Category C:</p> <p>Load Service (Including Load Growth) On All Paths</p> <p><i>“Keeping the Lights On”</i></p>	<p>Requests for load service will be made to the RTO. The RTO will then forward the request to the appropriate PTO(s), which is responsible for ensuring that sufficient facilities are available to provide secure service. The PTO(s) should consider non-transmission alternatives. The PTO(s) has the decision-making authority as to what facilities should be built, and the costs of such facilities will be recovered in the PTO’s(s’) Company Rate. To the extent that new transfer capability is created, whoever pays for the expansion should get any corresponding FTRs.¹¹</p> <p>As part of their responsibilities under this category, PTOs are required to prepare adequacy assessments and provide them to the RTO. (Transmission adequacy means the ability to deliver the requested amount of power, without regard to the cost of the power being delivered.) This is required (1) after a service request has been forwarded to a PTO and (2) on a periodic basis in the regular course of business.</p> <p>If multiple PTOs need to be involved in order to meet the load service request, the RTO should coordinate the PTOs’ determination of a plan of service and their respective obligations within a set timeframe. If the PTOs cannot reach agreement, the RTO has the authority to decide what should be done and to allocate the costs of such action to the PTOs.¹²</p> <p><i>Backstop.</i>¹³ If a PTO has failed to meet its obligation to assure the transmission adequacy of the RTO Grid, the RTO has the authority to require the PTO to remedy the problem. (ADR will be available for parties that disagree with the RTO’s decisions.) The PTO’s costs to assure transmission adequacy will be recovered through its Company Rate. If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs.</p> <p>Regional criteria will be established to be applied by the PTO(s) and, if necessary, by the RTO, to determine transmission adequacy. The joint work group recommends that interested parties develop the criteria after the RTO is formed.</p>

¹¹ See discussion at Category D *infra* regarding creating value for those FTRs.

¹² Bonneville believes that it would be appropriate for the RTO to decide at the outset how the load service request should be met when multiple PTOs are involved, and believes that the above recommendation represents a lost opportunity to improve regional planning.

¹³ Some of the joint work group members are concerned about the implications of this backstop on the staffing requirements of the RTO, others would prefer a stronger backstop. That said, the backstop described above was acceptable to the majority of the joint work group (including the members who would like a stronger backstop).

Purpose	Decision-Maker/Who Pays
<p>Category D:</p> <p>Congestion Relief/ Market-Driven Mechanism</p>	<p>Transmission project sponsor makes decision and bears the costs of transmission expansion for rights obtained. (Transmission project sponsor could be PTO, LSE, or other market participant)</p> <p>All of the specifics of the market-driven mechanism have not yet been developed, but the joint work group does not think that it is necessary to have them in place for the 10/15 filing (some members believe that the details should be developed by the time the RTO begins operations).</p> <p>While details remain to be developed, the joint work group wants to ensure that the market-driven mechanism has the highest probability of success. A number of proposals have been developed that attempt to treat transmission like generation (and give sponsors an option to deal with the “free rider” problem [although not all members of the group believe there is a free rider problem].) For example, one proposal creates value by allowing a transmission project sponsor to withhold the FTRs for a time, another suggests that a reserve price should be set for the auction of those FTRs.¹⁴</p> <p>Other proposals address:</p> <ul style="list-style-type: none"> • How to handle a situation where a state regulatory body requires that a congestion relief project be expanded “for the public good” (the RTO would set a reserve price for the “extra” FTRs created from the expansion of the original proposal); • Specifics of soliciting interested sponsors; • What to do when too many transmission project sponsors come forward. • How to handle competing project proposals.

¹⁴ While the Planning Work Group members do not agree with all of the elements of each of these proposals, the Work Group strongly recommends that these options be fully explored and that options that increase the likelihood that a market-driven approach would work should be adopted. The majority of the work group believes that there is a negative correlation between the success of the market-driven mechanism and the need for an allocation of benefits and costs – the more successful the mechanism, the less likely an allocation process will be required.

One of the underpinnings of the market-driven mechanism is that the RTO would only have limited planning involvement (unless a transmission market sponsor hires the RTO to plan the project) and that if someone is willing to build a project and pay for it, assuming compliance with applicable standards and absent unmitigated negative impacts on the RTO Grid, it should go forward. One issue that was identified that should be discussed when the process is developed is whether the process should ensure that the projects that are built are in the best interest of the end user.

4. RTO Determination of Benefits and Allocation of Costs¹⁵

- A process will be established that will determine the benefits of replacement, reinforcement, and expansion decisions and allocate their costs (including the costs of non-transmission solutions) to the PTOs whose load has benefited. Those parties that pay the costs will be given any corresponding FTRs.
- The process can be invoked by a transmission project sponsor (which can include a PTO) or, when the RTO is invoking its backstop authority, at the RTO's initiative.
- Standards will be developed to determine benefits and how to allocate costs (e.g., the basis on which benefits should be determined [ongoing or at a fixed period in time]).
- As part of the process, the potential beneficiaries will be given a full opportunity to agree to a cost allocation.
- If the potential beneficiaries cannot agree, a third party will determine the appropriate allocation.

Options

- ❖ RTO makes the decision after input from potential beneficiaries (this would be akin to a rate case)/RTO outsources the decision to an independent consultant (majority)
- ❖ ADR with a neutral arbitrator (minority)¹⁶
- ❖ One possible outcome of the process is that there would not be an allocation. For example, if the decision-maker concludes that there are other viable alternatives that would be more cost-effective, while the transmission project sponsor is free to go ahead with the proposed project none of the other beneficiaries would be required to pay a share of the project's costs.
- ❖ After the results of the allocation process have been announced, the proposed project's initial sponsor has the discretion to go forward with the project without an allocation and receive all of the FTRs created by the project.
- Costs that have been allocated to PTOs will be recovered through their Company Rates.
- One question was raised about how the allocation process fits within the RRG's Option 6 pricing proposal. Specifically, what happens if there is a beneficiary that is not a load within the RTO West geographic area (and is therefore not required

¹⁵ The allocation process can be requested for all types of replacements, reinforcements, upgrades, or expansion; however, if the proposed project is for congestion relief, the scope of the allocation process will be limited to whether there are transmission adequacy benefits that should be allocated, not whether other parties benefit from congestion relief.

¹⁶ The joint work group notes that if the RTO has the authority to allocate benefits and costs more RTO staff will be needed, and some members are concerned about the implications of the staffing needs. The outsourcing and ADR approaches are ways to minimize RTO work load. Others are concerned about the governance implications of placing the RTO Board in a quasi-regulatory role of reviewing and allocating project costs.

to pay an access charge?) Will they be required to pay their proportional share of the costs? If so, how would this be collected? (Pending the answer to this question, many members of the work group felt that in order to be consistent with the RRG decision to have a load-based access charge, the sponsors of the project would receive FTRs and that it would not be appropriate to require “outside beneficiaries” to contribute to the costs [this is simply another “free rider” issue that could be eliminated with a well-designed market-driven mechanism]. Some think this could be resolved as a seams issue, although only in part, as this situation could occur within the geographic confines of RTO West. Finally, other members believe that the “outside beneficiaries” should be required to contribute [possibly through an RTO uplift charge].)

5. Interconnections to the RTO Grid

- Interconnection of New Transmission Facilities, Load, and Generation. RTO West should require the project sponsor of a new transmission or distribution facility, new load, or new generation¹⁷ that is interconnecting with the RTO Grid to mitigate any resultant negative impacts on the operational transfer capability of the RTO Grid. Conversely, if additional transfer capability results, the transmission project sponsor, the new load, or the new generation will be awarded the resulting FTRs.
- Interconnection of Generation Facilities¹⁸
 - ❖ Requests for FERC-jurisdictional services relating to new generation or new load will be handled by requiring that the RTO’s customer’s request be submitted to the RTO. The RTO will forward the request to the appropriate PTO for analysis.¹⁹

¹⁷ The Planning Work Group believes strongly that transmission, generation, and load should be treated the same. That said, the group is not aware of many instances where new generation would negatively impact the operational transfer capability of the RTO Grid; however, if a situation arises, the group recommends that the generation be required to mitigate the negative impacts.

¹⁸ The Planning Work Group received a proposal regarding principles for generation interconnection and other FERC-jurisdictional services. While the proposal (as modified above) is acceptable to the Planning Work Group, the group recognizes that certain elements of the proposal are within the purview of other work groups (for example, Implementation and Legal), and those work groups should provide input prior to an RRG decision. While the proposal originally provided that the subject matter be placed in the tariff, the Planning Work Group believes that that is a matter for another group, and has deleted references to the appropriate “home” for the substantive provisions. In addition, the Planning Work Group wonders whether the elements of the proposal that are acceptable should be expanded to the interconnection of new transmission facilities and generation.

¹⁹ This proposal only deals with transmission and distribution facilities owned by a PTO. If the wholesale generator requesting service needs to connect through distribution or transmission facilities owned by a non-PTO, the RTO would invite the non-PTO to participate in the RTO planning process, but the RTO could not compel this. Further, there might be a wrinkle with respect to the transmission owners that are currently considering transferring their facilities to an ITC. Would such transmission owners be considered PTOs or non-PTOs for purposes of this issue?

- ❖ The RTO will allow the RTO customer and the PTO to handle the mechanisms of the study process (in accordance with study procedures and timelines that will be specified by the RTO).
 - However, the RTO will also be allowed to monitor the process and may participate directly in the process at the request of either party.
- ❖ The RTO will have a comprehensive generation interconnection policy. The policy will address, among other things, the procedures and timelines for studies, rules for determining the types of network upgrades for which the new generator will be responsible, rules for determining how system benefits associated with new generator interconnections will be determined and allocated, and rules regarding mitigation of impacts on the transfer capability of the RTO Grid.
- ❖ Should a dispute arise, the dispute resolution procedures [in the RTO Tariff?] would be relied upon.
 - A potential dispute resolution process follows. Under those procedures, parties could voluntarily agree to mediation. But at either party's request, the RTO's mandatory arbitration process would be initiated. Although arbitration would be mandatory, the results would be binding only if both parties stipulated to that at the start of the process. Otherwise, only the factual record established by the arbitration would be given substantial deference and the parties would bring the resulting arbitrator's opinion to FERC, which would grant whatever deference it chose to grant. The RTO would be entitled to participate in both the arbitration process and in any subsequent FERC proceeding.

6. Independent Transmission Company

The Independent Transmission Company ("ITC") never made a proposal to the Planning Work Group as to how the ITC might be different from the other transmission owners with regard to planning matters, at least on Day One. As such, the work group does not have a recommendation regarding the ITC.

It has come to the attention of the group that a policy question is being raised that could result in the ITC requesting special treatment with respect to planning functions in the future. The work group believes that there would be technical implications if this occurred; however, as consideration of the potentially different treatment of the ITC is not yet ripe, the Planning Work Group will not discuss the possible implications until it is requested to do so by the RRG.